MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

BAW4624 – TAX COMPLIANCE

(All Sections / Groups)

2 OCTOBER 2023
9 a.m. – 12 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 15 pages excluding the cover page with **FIVE** (5) Questions only.
2. Attempt **ALL** questions in English. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.
4. All questions must be answered in English.

All questions are based on the Income Tax Act 1967 (as amended), Real Property Gains Tax Act 1976 (as amended), Sales & Service Tax Act 2018 , Stamp Act 1949 (as amended) and legislations passed up to the year 2022.

QUESTION 1

You work as a trainee for Scott & Co., a firm of ICAEW Chartered Accountants. You are currently working on the tax affairs of Apple Sdn. Bhd. (Apple).

You have just been approached by one of Apple's finance staff. He tells you that the company recently received a sales tax refund of RM60,000 from Royal Malaysian Customs Department (RMCD). He reported this immediately to the finance director, who told him to forget about it. The staff is concerned because Apple was not due any refund of sales tax.

Required:

(i) Identify actions that your firm should take in line with the guidance given in 'Professional Conduct in Relation to Taxation'.

(5 marks)

(ii) Identify two defences against a charge of failure to report a suspicion of money laundering.

(2 marks)

[Total: 7 marks]

QUESTION 2

(a) Ms Yeo, who operates a seafood restaurant is licensed under the Service Tax Act 2018. On 31 July 2022, she charged a customer RM742 for food and drinks inclusive of service tax.

Required:

State the amount of service tax to be paid to the Customs Department in respect of the bill, and the due date for payment.

(2 marks)

(b) AMChairs Sdn. Bhd. (AMChairs), a manufacturer of office equipment, is a taxable person licensed under the Sales Tax Act 2018. In March 2022, the company sold their goods to the following customers:

	RM
CD Sdn. Bhd. located in Selangor	25,000
Ikhlas Sdn. Bhd. located in Labuan	88,000
Tian Ho Ltd. located in Hong Kong	195,000

Continued...

In April 2022, the company donated some tables and chairs with a market value of RM300 to an approved orphanage located in Melaka.

Required:

(i) State, giving reasons, if any of the sales made by AMChairs in March 2022 will NOT be subject to sales tax.

(2 marks)

(ii) Compute the sales tax due by AMChairs based on the information provided in the question. Assume that the sales tax rate is 10%.

(3 marks)

(c) Mr. Kamal is a successful entrepreneur. He intends to set-up a manufacturing firm in Penang. He has heard about the sales tax and wish to know more about it.

Required:

As a tax advisor of Mr. Kamal, provide a brief explanation about the scope of sales tax to him.

(4 marks)

(d) Hazel is considering making an investment in property. She learned that, if she buys a house, she would need to pay stamp duty on the sales and purchase agreement.

Required:

Explain to Hazel the significance of paying stamp duty on written instrument.

(3 marks)

(e) Identify the type of business that can elect for the cash basis of accounting in UK.

(1 mark)

[Total: 15 marks]

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QUESTION 3

a) Norman is a Malaysian citizen. He purchased a residential house in Air Molek for RM349,000. He signed the sales and purchase agreement on 7 August 2017. The certificate of fitness was obtained on 31 January 2018. Norman financed the purchase of the house with a loan from OUB Bank. Norman received RM10,000 from an insurance company as compensation on damages of the house caused by flash flood on 1 December 2021. On 6 August 2022, Norman sold the house for RM550,000. The costs he incurred on the property were as follows:

	RM
Stamp duty on acquisition	1,980
Interest on loan from OUB Bank to finance house acquisition	35,000
Legal fees on acquisition	12,000
Repair on leaked roof on 1 July 2022	2,500
Valuation fee for the sale	5,500
Advertisement for the sale	2,800
Real estate agent's commission on the sale	16,500

Required:

Compute the real property gains tax (RPGT) for Norman . Indicate 'nil' for any item with no transaction value.

(7 marks)

b) Clara, a spinster, passed away on 31 May 2022 due to a car accident. She was a Malaysian tax resident who stayed in Penang before her demise. The following information is in respect of Clara's income for the year ended 31 December 2022:

	RM
Skincare business (Sole-proprietor business located in Melaka):	
Statutory income	60,000
Unabsorbed business loss brought forward from year 2021	(5,000)
Share of CC & Co. business income (Partnership business with Callie located in Penang):	
Adjusted loss	(26,000)
Capital allowances	5,000
Balancing charge	10,000
Interest income received	
Savings account of RM50,000 with OCBC Bank Berhad – credited on 20 March 2022	2,000

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Fixed deposit account of RM100,000 with HSBC Bank Berhad-credited on 11 October 2022	6,000
Commission income received	
Commission income remitted to Malaysia from Singapore on 2 February 2022	6,500

Clara's brother, Kevin has been appointed as the executor of her estate. Kevin was a resident in Malaysia during the year of assessment 2022. He was being paid RM4,000 for acting as the executor of the estate. Aria, Clara's niece, received just RM9,000 despite being entitled to an annuity of RM12,000 for the year of assessment 2022. On 1 April, 2022, Clara spent RM1,500 on a complete medical examination and, on the same date, donated cash of RM300 to an approved orphanage.

Required:

(i) Compute the chargeable income of Clara (deceased) and the estate of Clara for the year of assessment 2022. Indicate 'nil' or "exempt' for any item with no transaction value. Round all figures to the nearest RM. Show all relevant workings.

(9 marks)

(ii) State, with reasons, whether there would be any change to the chargeable income of the estate if the deceased was a non-resident and not domiciled in Malaysia during the year of assessment 2022.

(3 marks)

c) Lucy was aged 70 years old in 2022. On 1 June 2022, she transferred her bungalow house to her only daughter, Dorothy, aged 32 and unmarried. An assumption is made that the settlement is irrevocable. The bungalow was rented to a tenant for RM3,000 per month. Both Lucy and Dorothy have decided that Lucy would continue to receive the rental income as her living expenses for as long as she is alive.

Required:

Discuss who will be assessed to income tax on the rental income derived from the bungalow house for the year of assessment 2022.

(3 marks)

[Total: 22 marks]

Continued...

QUESTION 4

Sherry, a Malaysian national, and her husband, Jerry, who is a Hong Kong national, have been employed in Hong Kong for the last twelve (12) years. Jerry was attracted to the Malaysia My Second Home (MM2H) programme and moved to Malaysia together with his wife, and one out of their two children, Amelia, in 2019. Their eldest child, Kenny, was residing and studying in Hong Kong.

Sherry began working as a regional sales manager for a multinational company in Malaysia-TRX Berhad on 1 November 2021.

Sherry's remuneration for the year ended 31 December 2022 as follows:

1. Monthly salary of RM35,000 with her contribution to the Employees' Provident Fund at 11% of her salary.

2. Monthly travelling allowance of RM3,000.

3. A new company car costing RM200,000, fuel and a driver were provided effective from 1 February 2022.

4. A rented fully-furnished bungalow in Damansara was provided by her employer from 1 January 2022. The monthly rental of RM8,000, which included RM1,800 for the rental of furniture and fittings, were paid by TRX Berhad.

5. For the whole year of 2022, the employer paid RM3,500 for the services of a part-time domestic maid.

6. One leave passage of RM25,000 (inclusive air ticket of RM3,000) was provided to her to Japan on 23 December 2022.

7. Sherry's employer paid the schooling fees for her second child, Amelia. Amelia, aged 16, was sent to an international school in Malaysia. The annual school fees amounted to RM15,000. Kenny, the eldest child, aged 21 years old, is a student from the University of Hong Kong in Hong Kong, received a scholarship for his studies.

8. Medical benefits under her company's group insurance scheme. She claimed reimbursement of medical costs amounted to RM10,000 from this scheme. The details of the bill showed that the amount was related to her husband and her children.

Sherry received an interest income remitted from Hong Kong amounted to RM40,000 on 31 December 2022.

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Other information relating to Sherry in year 2022 is as follows:

- She contributed RM400 to Social Security Organisation (SOCSO).
- She paid an annual premium of RM4,800 and RM5,000 respectively for her own life and medical insurance policy taken in Hong Kong since 2018.
- Her parents are currently staying in Melaka. Her father is a cancer patient (certified by a medical practitioner) . She spent RM100,000 on the medical bills for her father.
- She brought her family to Genting Highlands for a holiday in December 2022. She spent RM1,000 on accommodation at a hotel registered with the Commissioner of Tourism under the Tourism Industry Act 1992.
- She purchased a new I-phone worth RM3,500 for herself. Besides, she also bought a new mechanical watch costing RM1,800 for her husband.
- She spent RM800 on an influenza vaccination for Amelia.
- She contributed RM3,100 to an approved private retirement scheme.
- She spent RM1,200 on broadband subscription.
- She incurred tuition fees of RM30,000 for her master's degree in University of Malaya.
- She donated goods worth RM500 and cash amounted to RM500 to approved charities.

Jerry set-up a partnership business of providing interior design services with his sister-in-law, Jennie in 2021. They named their firm as JJ & Co.

Their business accounts for the year ended 31 December 2022 showed a net profit RM40,500 which include the following expenses:

	RM
Depreciation	16,000
Approved cash donation to charitable institution on 30 June 2022	1,500
Payment of broadband for Jennie	250
Payment of utility bill for Jennie	800
General provision for doubtful trade debts	10,000

In addition, the partnership also paid salaries and interest on capital to partners based on the terms spelt out in the partnership agreement in 2022.

The terms of agreement for the partnership are as follows:

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	Jerry (RM)	Jennie (RM)
Capital contribution	150,000	100,000
Interest on capital per annum	12,000	9,000
Partners' salary per month	4,500	4,000
Profit-sharing ratio:		
1 January 2022 to 30 June 2022	65%	35%
1 July 2022 to 31 December 2022	50%	50%

Other information for the year 2022:

1. Jennie rented out her condominium in Bandar Utama, Selangor. The statutory rental income received was RM36,000.
2. The partnership claimed capital allowance of RM28,000.
3. Sherry, Jerry and Jennie are Malaysian tax residents in 2022.

Required:

(i) Compute the chargeable income of Sherry under the separate assessment for the year of assessment 2022 by virtue of the Income Tax Act (ITA) 1967. Assume Sherry claims child reliefs.

Note: All items stated in the question are to be included in the computation. Where any item is not taxable or deductible, indicate 'nil' or 'exempt' in the computation. Round all figures to the nearest RM.

(20 marks)

(ii) Compute the provisional adjusted income of JJ & Co. for the year of assessment 2022.

(4 marks)

(iii) Compute the divisible income of JJ & Co. for the year of assessment 2022.

(5 marks)

(iv) Compute the total income of each partner for the year of assessment 2022.

(8 marks)

(v) Identify the relevant facts from the above scenario which qualify Jerry to elect for joint assessment.

(3 marks)

[Total: 40 marks]

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QUESTION 5

MyBatik Sdn. Bhd. (MyBatik) is engaged in the production of batik textiles with a paid-up ordinary share capital of RM2.7 million. MyBatik's statement of profit or loss for the financial year ended 31 December 2022 is as follows:

		Note	RM'000	RM'000
Sales revenue		(1)		5,800
Less:	Cost of sales	(2)		(2,800)
	Gross profit			3,000
Add:	Other income	(3)		30
				3,030
Less:	Expenses			
	Salaries, wages and EPF	(4)	710	
	Repair and maintenance	(5)	280	
	Bad and doubtful debts	(6)	130	
	Insurance expense	(7)	100	
	Marketing expenses	(8)	354	
	Rental of premises	(9)	180	
	Motor vehicle expenses	(10)	235	
	Legal and professional fees	(11)	38	
	Penalty	(12)	15	
	Foreign exchange	(13)	8	
				(2,050)
Net profit before tax				980

Notes:

1. Sales includes a sum of RM155,000 received from a supplier of dye as compensation for the poor quality of the dye.

2. Cost of sales includes the Mybatik's products costing RM36,600 donated to an approved institution. The selling price was RM40,000.

3. Other income is in respect of the interest income derived from investment in Vietnam and received in Malaysia.

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4. Salaries, wages and EPF include the followings:

	Items	RM'000
i.	Leave passages to management staff and their families	25
ii.	Provision for sales incentives	50
iii.	Salaries to three disabled employees	62
iv.	Leave passage in respect of the company family day in which senior management personnel participated	30
v.	Payment to a manager to secure his early retirement on account of misconduct.	50

5. The following expenses were incurred during the year and charged under repair and maintenance:

	Items	RM'000
i	Administrative office and showroom extension	100
ii	The factory roof leaked badly and was replaced with improved quality tiles	45
iii	Maintenance of the plant and machinery	35

6. Bad and doubtful debts include a write off of a loan owed by an associated company which amounted to RM77,000. The balance of the bad and doubtful debts written off is in respect of trade debts.

7. The insurance expense relates to the premium paid to a local insurance company for insuring the stock-in-trade and business premises.

8. Marketing expenses include a sum of RM190,000 embezzled by the marketing director.

9. Rental of premises includes rental paid in advance for the three months period from 1 January 2023 to 31 March 2023 amounting to RM36,000.

10. Motor vehicle expenses comprise:

	Items	RM'000
i.	Depreciation	198
ii.	Repair and maintenance of motor vehicles used in business	35
iii.	Fine for traffic offences committed by the lorry driver	2
	Total	235

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11. Legal and professional fees include the followings:

	Items	RM'000
i	Tax filing services	8
ii.	Secretarial services	7

12. Penalty refers to penalty on late submission of sales tax.

13. Foreign exchange comprises:

	Items	RM'000
i	Unrealised loss on the purchase of silk from China	14
ii	Realised gain from the purchase of silk from India	(6)
	Total	8

14. Other information:
Capital allowances for the year of assessment 2022 were RM150,000.

Required:

(a) Compute the income tax payable by MyBatik for the year of assessment 2022. Assume that the tax rate is 24%.

Note:
Your computation should start with the 'net profit before tax' figure and should include all items referred to in Notes 1 to 14, indicating 'nil' or 'exempt' where no adjustment is needed.

(13 marks)

(b) Briefly explain the tax treatment of the following items:
(i) payment to manager to secure his early retirement (note 4v);
(ii) penalty on the late submission of sales tax (note 12)

(3 marks)
[Total: 16 marks]

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2022.**

Category	Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
A	0 - 5,000	On the First 5,000	0	0
B	5,001 - 20,000	On the First 5,000		0
		Next 15,000	1	150
C	20,001 - 35,000	On the First 20,000		150
		Next 15,000	3	450
D	35,001 - 50,000	On the First 35,000		600
		Next 15,000	8	1,200
E	50,001 - 70,000	On the First 50,000		1,800
		Next 20,000	13	2,600
F	70,001 - 100,000	On the First 70,000		4,400
		Next 30,000	21	6,300
G	100,001 - 250,000	On the First 100,000		10,700
		Next 150,000	24	36,000
H	250,001 - 400,000	On the First 250,000		46,700
		Next 150,000	24.5	36,750
I	400,001 - 600,000	On the First 400,000		83,450
		Next 200,000	25	50,000
J	600,001 - 1,000,000	On the First 600,000		133,450
		Next 400,000	26	104,000
K	1,000,001 - 2,000,000	On the First 1,000,000		237,450
		Next 1,000,000	28	280,000
L	Exceeding 2,000,000	On the First 2,000,000		517,450
		Next ringgit	30	.....

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- **Reliefs for the Year of Assessment (YA) 2022**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief/payment of alimony	4,000
Disabled spouse relief (additional relief)	5,000
Medical expenses for parents	8,000
1. Medical expenses for serious diseases 2. Vaccination expenses for self, spouse and child. (Restricted to RM1,000) 3. Medical expenses for fertility treatment for self or spouse 4. (i) Complete medical examination for self, spouse, child as defined by the Malaysian Medical Council (MMC). (ii) COVID-19 detection test including purchase of self-detection test kit for self, spouse, child. (iii) Mental health examination or consultation for self, spouse or child. [Restricted to RM1,000 for item 4(i)-(iii)]	8,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	350
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Additional lifestyle- purchase of personal computer, smartphone or tablet for self, spouse or child	2,500
Healthy lifestyle-purchase of sports equipment; rental or entrance fee to any sports facility; registration fee for any approved sports competition	500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten for a child aged 6 years and below	3,000
Payment for accommodation at premises registered with the Commissioner of Tourism and entrance fee to a tourist attraction	1,000

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- **Rebates**

Rebates	**RM**
Chargeable income <= RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

- **Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	**Annual prescribed benefit of motorcar**	**Annual prescribed benefit of petrol**
RM	**RM**	**RM**
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

- **Prescribed value of household furnishings, apparatus and appliances**

Category	**Type of Benefit**	**Annual Prescribed value of BIK provided RM**
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: • air-conditioners • curtains and alike • carpets	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

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Other benefits	RM per month
Household servant	400
Gardener	300
Driver	600

- **Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery (general)	Office Equipment, Furniture & Fittings, Others	Industrial Building
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

- **Sales and service tax**

	Rate %
Sales tax	10
Service tax	6

- **Stamp duty**

Rates of duty under the First Schedule
Conveyance, assignment, transfer or absolute bill of sale

Sale of property - from 1.7.2019 onwards	Rate %
First RM100,000	1
RM100,001 to RM500,000	2
RM500,001 to RM1,000,000	3
>RM1,000,000	4

House loan agreement	0.5
Transfer of shares or marketable securities	0.3
Transfer of shares or marketable securities by using contract note	0.15

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- **Real property gains tax**

DISPOSAL PERIOD	TAX RATE FOR YEAR OF ASSESSMENT 2022		
	PART I Other than Part II and Part III [eg: individual, partnership, executor of the estate of a deceased person who is a citizen or a permanent resident]	PART II Company incorporated in Malaysia or trustee of a trust	PART III Individual who is not a citizen and not a permanent resident, or an executor of the estate of a deceased person who is not citizen and not a permanent resident, or a company not incorporated in Malaysia.
Disposal within 3 years after the date of acquisition	30%	30%	30%
Disposal in the 4th year after the date of acquisition	20%	20%	30%
Disposal in the 5th year after the date of acquisition	15%	15%	30%
Disposal in the 6th year after the date of acquisition	nil	10%	10%

End of paper.